MUNICIPAL BUDGET

DEFINITION OF A MUNICIPAL BUDGET

A municipal budget is generally a projection of future revenues and expenditure. A budget is used to control financial transactions and should also be used as a management and planning tool.

It is also a tool for implementing the service delivery objectives of the Municipality as set out in their Integrated Development Plan.

A Municipal budget also provides for greater transparency, accountability, flexibility and predictability within the municipality.

A Municipality budget is divided into Capital and Operating Budget:

a) A capital budget is an estimate of the expenses that will be incurred during that financial year to create future benefits, and the sources of finance from which these expenses will be funded. The municipality spends money either to buy fixed assets or to add to the value of an existing fixed assets with a useful life that extends beyond one year. Fixed assets include, inter alia, land and buildings, motor vehicles, furniture, computers, office equipment and machinery.

b) An operating budget is an estimate of the operating revenues which will accrue to the municipality through its normal service delivery and the expenditure that will be incurred through the day to day operations of the municipality over the financial year.

EXAMPLE: The purchase of a photocopier is a capital expenditure and is budgeted for under the capital budget, but the maintenance and other expense such as the paper and toner for the photocopier is budget for under the operating budget.

OBJECTIVE OF A MUNICIPAL BUDGET

The main objective of a municipal budget is to sensibly expected resources to the municipality's service delivery goals or performance objectives identified as priorities in the approved IDP.

The municipal budget is a tool through which the total level of revenue and expenditure are adequately controlled, public resources are appropriately allocated among sectors and programs, and ensure that departments operate as efficiently as possible within the municipality.

1.3 EXECUTIVE SUMMARY FINAL BUDGET: 2017/2018 BUDGET YEAR

1.3.1 Key focus areas for the 2017/18 final budget process

GDP growth rate is forecasted to increase by 1.3 per cent in 2017 and to improve moderately over the medium term with to 2 per cent and 2.2 per cent in 2018 and 2019 respectively. This forecast is supported by marginally higher global growth, stabilising commodity prices, greater reliability of the electricity network, more favourable weather conditions, recovering business and consumer confidence, and improved labour relations. The positive trajectory marks a shift from several years of declining growth however; this is still not high enough to markedly reduce unemployment, poverty and inequality.

The unemployment rate was 26.5 per cent in the fourth quarter of 2016. In aggregate mining and manufacturing employment declined by 80 306 jobs in 2016 while the services sector created 119 189 jobs during the same period. The economy continues to create opportunities for semi-skilled and skilled workers, and to shed unskilled jobs, reinforcing poverty and inequality and widening the wage gap..

These economic challenges will continue to pressurise municipal revenue generation and collection levels hence a conservative approach is advised for projecting revenue. Municipalities will have to improve their efforts to limit non-priority spending and to implement stringent cost-containment measures.
The following macro-economic forecasts must be considered when preparing the 2017/18 MTREF municipal budgets.

Table 1: Macroeconomic performance and projections, 2015 - 2019

Fiscal year	**2016/17**	**2017/18**	**2018/19**	**2019/20**
Estimate		**Forecast**		
Consumer Price Inflation (CPI)	6.4%	6.4%	5.7%	5.6%
Real GDP growth	0.5%	1.3%	2.0%	2.2%

The labour market has deteriorated. The official unemployment rate rose to 24.10 per cent of the labour force in the third fourth of 2013 from 24.50 per cent in the third quarter according to the latest Quarterly Labour Force Survey. The total number of unemployed people stood at 4.67 million in the three months up to September, from 4.47 million in the second quarter. By the expanded definition of unemployment (including those who have stopped looking for work) unemployment increased to 36.3 per cent, from 36.2 per cent.

Consequently, municipal revenues and cash flows are expected to remain under pressure in 2017/18 and ***so municipalities must adopt a conservative approach when projecting their expected revenues and cash receipts***. Municipalities will have to carefully consider affordability of tariff increases especially as it relates to domestic consumers while considering the level of services versus the associated cost. Municipalities should also pay particular attention to managing revenue effectively and carefully evaluate all spending decisions. In generating capacity for spending on key municipal infrastructure ***municipalities will have to identify inefficiencies and eliminate non-priority spending***.

The *2017 Budget Review* provides for R366.3 billion to be transferred directly to local government and a further R23 billion allocated to indirect grants for the 2017 MTREF. Direct transfers to local government over the medium term account for 9.1 per cent of national government's non-interest expenditure.

When adding indirect transfers, the total spending for local government increases to 9.7 per cent of national non-interest expenditure. Direct transfers to local government grow at an average rate of 8 per cent per annum over the 2017 MTEF. This strong growth in transfers to local government recognises the importance of local government functions and associated rising costs of municipal service delivery. Similarly, minor reductions are made to the larger conditional grants so that funds are prioritised in favour of other government priorities. Grant administrators and municipalities are encouraged to maximise the value derived from spending so that service delivery is not compromised.

Conditional grant funding targets delivery of national government's service delivery priorities. It is imperative that municipalities understand and comply with the conditions stipulated in the Division of Revenue Act (DoRA) in order to access this funding. The equitable share and the sharing of the

general fuel levy constitute additional unconditional funding, of which the equitable share is designed to fund the provision of free basic services to disadvantaged communities

Changes to local government allocations

 The *local government equitable share* will grow by R3.3 billion over the MTEF period to assist municipalities with the rising costs of providing free basic services. An additional R1 billion will be added in 2018/19 and R2.3 billion in 2019/20 which further grows the 2016 Division of Revenue provision of R1.5 billion in 2017/18 and R3 billion in 2018/19. The formula, which is informed by the 2011 Census data, will be updated over the MTEF with data from the 2016 Community Survey. This data will be phased in over the MTEF period to ensure a smooth transition of the impact on the allocations to municipalities.

 Minor reductions are made to a mix of urban and rural grants, including, the *public transport network grant*, the *water services infrastructure grant*, the *municipal infrastructure grant* and the *urban settlements development grant* so that resources are available to fund other government priorities. In spite of the decreased allocations each of these grants will grow by at least 5 per cent annually over the 2017 MTEF period.

 Funds reprioritised from:

- the *expanded public works programme integrated grant* to municipalities to fund the expanded mandate of the Commission for Conciliation, Mediation and Arbitration (as the commission will be providing its services to additional sectors);
- the indirect *integrated national electrification programme (Eskom) grant*, mainly to fund the management of nuclear waste; and
- the indirect *regional bulk infrastructure grant* of which small amounts will be utilised to augment funding for water catchment management agencies.

 There is intent to introduce a new funding model for district municipalities upon completion of the Department of Cooperative Governance’s review of their functional role. In 2017/18, adjustments are made to the *RSC/ JSB levies replacement grant* to redistribute funds to the 13 district municipalities currently receiving less than R40 million per year from this grant. The growth rates of the 10 district municipalities with the largest allocations are reduced to fund the increases to the other districts. They will receive two-thirds of their original growth rate in 2017/18 and one-third of their original growth rate in 2018/19.

In the outer year of the MTEF period, the grant increases by 8.8 per cent a year for district municipalities that are authorised to undertake water and sanitation services and 2.9 per cent for district municipalities that are not such authorities. The different rates recognise the various service delivery responsibilities of these district municipalities and the fact that the allocations to unauthorised municipalities have an average growth rate below inflation.

The Department of Cooperative Governance, which administers the *municipal infrastructure grant*, continues to implement measures to strengthen the management and implementation of the grant. Changes to be introduced in 2017/18 include the circulation of:

- a guideline on how to plan, assess and implement refurbishment projects funded by the grant. The rules of the grant were changed in 2015/16 to allow this funding to be utilised for refurbishment however there have not been many projects of this nature since then. The new guideline will clarify the requirements for accessing this refurbishment funding.

- a revised guideline on the use of project management unit funds. Municipalities are allowed to use up to 5 per cent of their allocations from this grant for a project management unit. Grant conditions that require municipalities to submit business plans for their project management units will also allow the Department of Cooperative Governance to ensure that municipalities adhere to the guideline's best practices.

Municipal Standard Chart of Accounts (*m*SCOA)1

1 The Minister of Finance promulgated the Municipal Regulations on a Standard Chart of Accounts in government gazette Notice No. 37577 on 22 April 2014. The *m*SCOA Regulations apply to all municipalities and municipal entities with effect from 1 July 2017.

Technically, for a municipality to be regarded as *m*SCOA compliant on 1 July 2017 it must be able to transact across all the *m*SCOA segments and its core system and all sub-systems (including that of its municipal entities) must seamlessly integrate. Among the lessons learnt from the pilot municipalities, stems the recommendation that a municipality's point of departure for achieving system integration is that it prioritises the maximum integration potential of its core system so that it integrates with the Debtors main sub-system (including cash management and receipting), Payroll and the Assets Management sub-system modules.

Furthermore, all municipalities must accommodate seamless integration of the Integrated Development Plan (IDP), Service Delivery and Budget Implementation Plan (SDBIP) and Budget facilities into the core financial system as these documents create a point of departure for the transactional environment come 1 July 2017.

This means that the compilation of the 2017/18 Medium-Term Budget and Expenditure Framework (MTREF) must be compliant with the *m*SCOA classification framework.
In summary, *m*SCOA compliance in respect of the tabled 2017/18 MTREF and IDP submission means that the data string uploaded to the LG Database portal must meet the following requirements:

- No mapping;
- Correct use of all segments;
- Seamless integration of core system with sub-systems (municipalities must ensure the integration of the Debtors, Payroll and Asset sub-systems); and
- Integrated budgeting facility directly linked to the IDP and SDBIP facilities on the system.

It is imperative that municipalities are familiar with the addendum to MFMA Circular No. 80 which describes what constitutes *m*SCOA compliance by 1 July 2017. National Treasury has a dedicated website to support municipalities with their *m*SCOA readiness efforts.

The revenue budget
National Treasury encourages municipalities to maintain tariff increases at levels that reflect an appropriate balance between the affordability to poorer households and other customers while ensuring the financial sustainability of the municipality. The Consumer Price Index (CPI) inflation has however breached the upper limit of the 3 to 6 per cent target band; therefore municipalities are now required to ***justify all increases in excess of the 6.4 per cent*** projected inflation target in their budget narratives, and pay careful attention to the differential incidence of tariff increases across all consumer groups.

Where revenue collection is not well planned or managed, or where tariffs are not properly set, serious financial problems can arise. Eskom's recent move to cut off power supply to municipalities that have not paid electricity bills is an indication of what can happen when municipalities fail to manage this risk.

Eskom bulk tariff increases

On the 23rd February 2017, the National Energy Regulator of South Africa (NERSA), issued a media statement saying that Eskom's allowed revenue for 2017/18 would result in a 2.2 per cent increase in the approved bulk tariffs for Eskom that year. NERSA's consultation paper on tariff benchmarking indicates that this will result in a 0.31 per cent increase in bulk tariffs to municipalities (the difference is due to the different financial years of Eskom and municipalities). This is significantly lower than the 8 per cent tariff increase provided for in the current Multi-Year Price Determination as a result of higher increases approved in preceding years (12.7per cent for 2015/16 and 9.4 per cent for 2016/17). The statement also says that, "Nothing prevents Eskom from considering any possible cash flow risks and the implications thereof on its financial sustainability and make an application to NERSA for relief in this regard should it consider it necessary." The complete media statement can be accessed at www.nersa.org.za.

Section 42 of the MFMA requires that bulk price increases charged to municipalities by an organ of state must be tabled by 15 March if they are to be effected as from 1 July of the same year, unless the Minister of Finance grants an extension. The Minister of Finance, at the request of the Minister of Public Enterprises, has granted an extension until 5 April 2017 for the tabling of Eskom's 2017/18 bulk prices for municipalities. Municipalities must ensure that their budgets are informed by Eskom's bulk tariff to be tabled on that date. In the meantime municipalities are advised to use the NERSA's guided 0.31 per cent bulk tariff increase when compiling their budgets. This means that any changes to the final bulk tariff increase for 2017/18 to be tabled by Eskom on the 5 April 2017 will have to be factored in at that time.

Municipalities must note that the free basic services subsidy provided for in the local government equitable share were informed by the 8 per cent bulk tariff increase previously approved for the current Multi-Year Price Determination period. The equitable share allocations were tabled on 22 February 2017 in the Division of Revenue Bill, 2017. If a lower electricity bulk tariff is tabled for 2017/18 this will be offset in the calculation of the free basic services subsidy for equitable share allocations for 2018/19. This means that municipalities will have to budget to retain any surplus funds from the higher free basic services subsidy paid in 2017/18 in order to offset the cost of providing free basic electricity in 2018/19.

1.3.2. Demographical Information

Phokwane Municipality is situated in the Northern Cape and lies within the boundaries o f the Francis Baard District Municipality. The area of jurisdiction is made up by the following areas ,Pampierstad ,Hartswater Jan Kempdorp, Ganspan Settlement and the Farming areas. The Geographical area is approximately 835km^2 in extent and a few important changes took place in the municipal area between 2001 and 2011 based on the Census information showing the current situation of the area. The local population of Phokwane Municipality was estimated to be 61 314 (Census 2001) and increase in the 2011 Census to 63 000. The increase in the population has led to the number of household increasing from 16 807 to 17 544 in 2011 Census which recorded an increase of 737 household.

Phokwane is a peri-urban area with serious socio-economic challenges such as unemployment ,high rate of poverty ,low skilled workforce and serious basic services infrastructure challenges such as roads, sewer network, housing and water services. The Municipality is bordered by two neighbouring Municipalities namely the Greater Taung Municipality with a very big population of about 204 000 (177 642), mainly dependant on Phokwane commercial centre for shopping and Magareng Local municipality with a population of about 24 204.

According to the 2011 Census, the labour market recorded 37.6% unemployment of the total workforce and thus showing 16.7% increase compared to 2001 data in the local area. Due to the high unemployment rate the Municipality currently have ± 4,100 registered indigent households.

The direct impact of the unemployment rate is the poor payment percentage of services which affects the municipality's ability to continue delivering such services at an affordable rate. A major increase in the debtor payment percentage is needed to ensure that all budgeted revenue are collected. It is therefore imperative that strict Credit Control is enforced to ensure that the Municipality has the necessary resources for optimal service delivery.

1.3.3. Personnel

For the 2017/2018 budget, the total councillors and employee related costs amounts to R 86 million or 28.79% of the total operating budget of R 283 million. Provision is made for budgeted posts.

Provision is made for Councillor Allowances and for employee related cost throughout. The period of the salary and wage collective agreement ends 30 June 2018. The annual increase for salaries as per the SALGBC is 6.4% plus 1% relating to salaries and wages for the 2017/18 budget. The operating budget depicts the following as far as Employee and councillors related cost is concern.

- Council Allowance as % of total operating budget derived from equitable shares: 2.12%
- Employees Salaries and Allowance as % of total operating budget 28.79%

As in previous years, provision are made for pension fund contributions for all employees who are members of an accredited pension fund as well as who are members of a Medical Aid. Provisions are also made for contributions towards a Councillor Pension Fund.

1.3.4. Summary of 2017/2018 Operating Expenditure

The approved operational budget for 2016/2017 amounted to R283 million and the operating expenditure budget for 2017/2018 is being estimated at R279 million thus, representing a decrease of 1.38% and the main reason for these decrease is due to general expenses.

Employee and Councillors Remuneration

- The annual increase for salaries as per the SALGBC is 6.4% plus 1% relating to salaries and wages for the 2017/18 budget.
- Council Allowance as % of total operating budget derived from equitable shares: 2.12%

Repairs and Maintenance:

- The increase for repairs and maintenance is 6.68% which is reasonable in terms of the threshold

Bulk Purchases:

- The increase for bulk purchases is 7.24%

Contracted Services:

- The increase for contracted services is 3.19%

Free Basic Services:

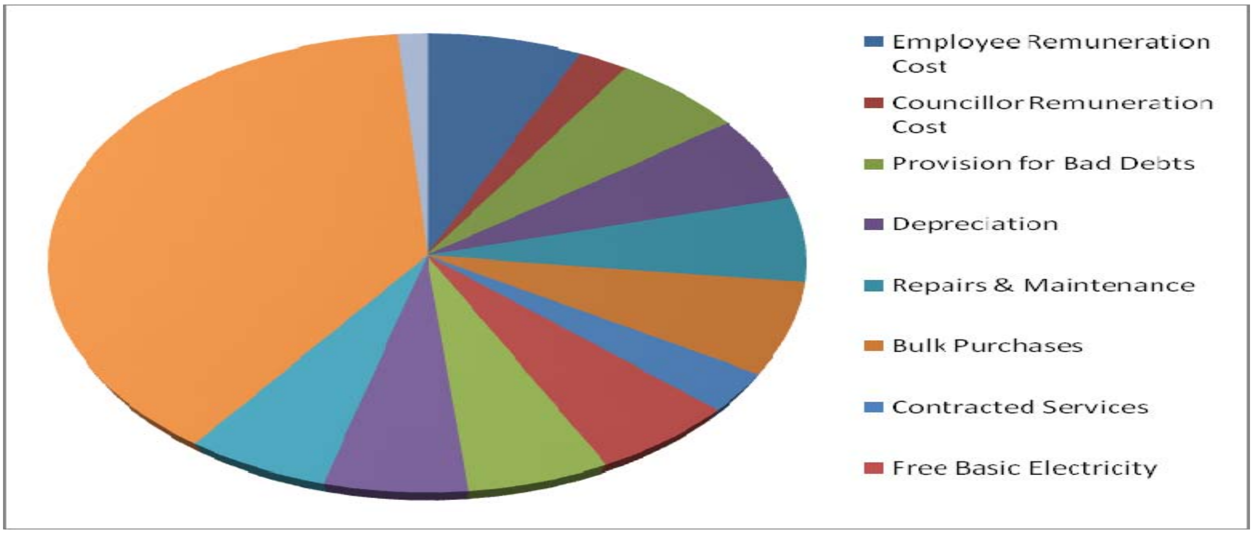
- Water : 6 Kilolitre per month for 4100 indigent households - R 2,125,354
- Sewerage : Free basic sanitation for 4100 indigent households per month - R5,485,208
- Refuse Removal :Free refuse for 4100 indigent households per month -R3,019,258
- Electricity : 50 kWh per month for 4100 indigent households – R 4,984,337

General Expenses:

- The general expenses decreased from R53 million to R31 million, which is a decrease of 41.62%

OPERATING EXPENDITURE BY SOURCE	2016/2017	2017/2018	VARIANCE %
Employee Remuneration Cost	72 196 834	80 249 925	7,40%
Councillor Remuneration Cost	6 139 240	5 991 780	-2,39%
Provision for Bad Debts	11 177 966	11 893 356	6,40%
Depreciation	13 104 451	13 943 136	6,40%
Repairs & Maintenance	10 610 428	11 745 364	6,40%
Bulk Purchases	81 270 196	87 159 089	7,24%
Contracted Services	20 629 147	21 289 327	3,19%
Free Basic Electricity	4 684 527	4 984 337	6,40%
Free Basic Water	1 997 513	2 125 354	6,40%
Free Basic Sanitation	5 155 271	5 485 208	6,40%
Free Basic Refuse	2 837 643	3 019 252	6,40%
General Expenses	52 844 686	30 849 689	41,62%
TOTAL	**282 647 902**	**278 735 817**	**1,38%**

CHART: PERCENTAGE APPORTIONMENT OF 2017/2018 OPERATING EXPENSES



1.3.5 Summary of 2017/2018 Operating Revenue

The operational revenue budget for 2016/2017 amounts to R263 million when compared to the R281 million of the 2017/2018 final budget. This is representing an increase in the total anticipated revenue of about 6.89%.

The reason for the increase is as follows:

Service Charges:

- the increase for service charges is 6.4% for water, sanitation and refuse and 1.88% increase for electricity as per Nersa guideline

Interest on Outstanding Debtors:

- an increase of 37.52% on outstanding debtors due to credit control that will be fully implemented in the 17/18 financial year

Grants and subsidies:

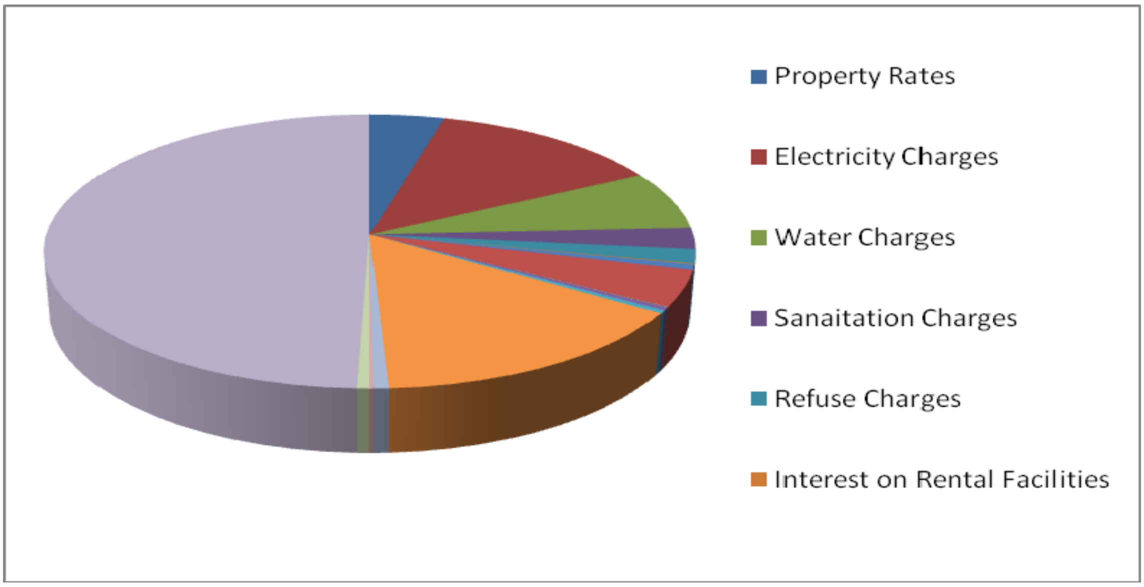
- the municipality will receive R85 million for Equitable Share and will receive R3.6 million for other grants and subsidies

Other revenue sources will be Agency fees, Rental facilities, Interest from Investments and other income.

The municipality has budgeted for Revenue Forgone to address electricity and water distribution losses, as per the pre-audited AFS of 2015/16 financial year, the distribution loss for electricity kwh is 0.63% or R5.4 million, for kva is 72% or R21.4 million and 60% or R8.9 million

OPERATING REVENUE BY SOURCE	2016/2017	2017/2018	VARIANCE %
Property Rates	-22 118 104	-23 754 844	7,40%
Electricity Charges	-73 259 238	-74 646 225	1,88%
Water Charges	-36 856 394	-39 215 203	6,40%
Sanaitation Charges	-13 172 410	-14 147 168	6,40%
Refuse Charges	-8 790 366	-9 440 853	6,40%
Interest on Rental Facilities	-563 099	-604 768	7,39%
Interest on Investments	-3 300 000	-3 511 200	6,39%
Interest on Outstanding Debts	-17 810 215	-24 492 982	37,52%
Fines	-178 900	-192 139	7,26%
Licenses & Permits	-2 088 703	-2 243 267	7,37%
Agency Services	-1 830 338	-1 965 783	7,43%
Equitable Shares	-79 307 000	-85 242 000	7,48%
Other Grants & Subsidies	-2 747 000	-3 655 000	33,05%
Other Income	-924 850	-946 768	2,38%
Revenue Forgone	-	3 000 000	0,00%
TOTAL	**-262 946 617**	**-281 058 201**	**6,89%**

APPORTIONMENT OF 2017/2018 OPERATING REVENUE



1.3.6 FREE BASIC SERVICES

Provision is made in the 2017/2018 budget for the free basic services to the value of R 15,614 million that consists of the following:

- Water : 6 Kilolitre per month for 4100 indigent households - R 2,125,354
- Sewerage : Free basic sanitation for 4100 indigent households per month - R5,485,208
  Refuse Removal :Free refuse for 4100 indigent households per month -R3,019,258
- Electricity : 50 kWh per month for 4100 indigent households – R 4,984,337

2.1 Proposed Capital Projects 2017/2018

2.1.1 The allocation from MIG for the 2017/2018 financial year is R 26 815 000. The proposed registered projects are as follows

Proposed Capital Project	TOTAL PROJECT VALUE	2016/2017	2017/2018	2018/2019	2019/2020	FUNDING SOURCE
Ganspan Waste Water Treatment Works (WWWTW) and Related Bulk sewer infrastructure	38 651 121	10 000 000	13 477 130	10 427 361	4 746 628	MIG
Upgrading of street and Stormwater in Valspan LIC Project Phase 1	62 774 893	4 792 957	10 000 000	17 739 639	10 000 000	MIG
MIG 1379:Sakhile, Masakeng , Kingston ,Bonita Park Highmast lighting	6 735 846	3 397 977	3 337 869	-	-	MIG
TOTAL	**108 161 860**	**18 190 934**	**26 814 999**	**28 167 000**	**14 746 628**	

2.1.2 The allocation from WSIG for the 2017/2018 financial year is R 25 000 000. The proposed registered projects are as follows

Proposed Capital Project	TOTAL PROJECT VALUE	2017/2018	FUNDING SOURCE
Magogong Station Bulk water supply	5 531 028	5 531 028	WSIG
Pampierstad:Elevated Tower Pumpstation Electricity	1 334 628	1 334 628	WSIG
Refurbishment of Jan Kempdorp Sewage Pumpstations	2 273 474	2 273 474	WSIG
Refurbishment of Jan Kempdorp Waste Water Treatment Works –Phase3	19 353 836	19 353 836	WSIG
TOTAL	**28 492 966**	**28 492 966**	

The total project value R28 492 966 as counter-funding of R 3 492 966 is required.

2.1.3 The allocation from INEP for the 2017/2018 financial year is R 3 000 000, the projects are yet to be finalised

Proposed Capital Project	TOTAL PROJECT VALUE	AMOUNT
Electrification of Guldenskat Township 608 Stands and Upgrading of Bulk (Guldenskat608- Ganspan 144- Andalucia Park 21	3 000 000	3 000 000

2.1.4 This project will be funded from our surplus

Proposed Capital Project	TOTAL PROJECT VALUE	AMOUNT	FUNDING SOURCE
mSCOA Compliant Financial System	2 102 757	2 012 757	INTERNAL FUNDING

6 **Key Budget Policies**

Council needs to reviews all budget related policies on an annual basis, those policies are:

- Tariff Policy
- Indigent Policy
- Rates Policy
- Supply Chain Management Policy
- Asset Management Policy
- S & T Policy
- Credit control and Debt Collection Policy

6.1 Alignment Grants per Budget with DoRA Allocations

Municipalities play a critical role in furthering government's objective of providing services to all while facilitating local economic development. Government has sought out to insulate local government from the full impact of the economic slow-down in national revenues with National transfers to local government.

The following Grants allocated to the municipality in terms of the 2017/2018 Division of Revenue Bill are as follows:

GRANT	2017/2018	2018/2019	2019/2020
Municipal Infrastructure Grant	-26,815,000	-28,167,000	-29,425,000
Equitable Share	-85,242,000	-94,174,000	-100,096,000
Extended Public Works Programme Incentive	-1,000,000	-0	-0
Integrated National Electrification Programme (ESKOM GRANT)	-3,000,000	-1,000,000	-6,000,000
Water Services Infrastructure Grant	-25,000,000	-30,000,000	-35,000,000
Financial Management Grant (FMG)	-2,145,000	-2,400,000	-2,660,000
TOTAL	**-143,202,000**	**-155,741,000**	**-173,181,000**

The following are In- Kind *Grants allocated to the municipality for the 2017/2018*

GRANT	2017/2018	2018/2019	2019/2020
Municipal System Improvement Grant	-787,000	0	0
Integrated National Electrification Programme	-1,131,000	0	0
TOTAL	**-1,918,000**		

GRANT	2017/2018
Library	1 069 000
Provincial Treasury	616 000
TOTAL	**1 685 000**